RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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CAPSULE APPRAISAL: Last week the D-J Transportation Average hit record highs, again unconfirmed by the Dow. But at Friday's close, the D-J Industrial Average was within 14 points of its March 11 all-time high of **7085.16.** As this is written (Monday mid-morning) the Dow has rallied ABOVE its previous record high of 7085.16. IF the Dow **closes above 7085.16,** then, under Dow Theory, the bull market will be reconfirmed.

PSYCHOLOGY: The cold war is over. China is not yet a threat. Corporate downsizing has eased. The public appears immune to the weekly Clinton scandals. Crime, nationally, has declined. So what are Americans thinking about now? They're thinking about MONEY.

Russell Baker's column in the April 22 *NY Times* struck a chord with me. Baker's talking about the psychology of the '90s, and I include a few sections of that column below.

Is there anything left but money, the market, the bottom line and more money, plus money, money, money?

Not in New York, friend. In New York people are standing on street corners comparing their mutual funds. In restaurants they are sitting over third-rate meals at $60 a plate and gossiping about apartments renting for $10,000 a month.

Two-bedroom limousines deposit and collect people at Broadway theaters where ticket prices run up to $75 per seat.

Men walk the streets with mobile telephones pressed to their faces. They are talking to London, Zurich, Hong Kong, Wall Street, Tokyo about the latest price of gold, diamonds, industrials, durables, perishables, pork bellies, potato chips, francs, beans, mustard, chopped onions.

Up at Elaine's, writers with $300,000 advances for unwritten books grouse that their publishers are threatening lawsuits to get their money back. Down at the Four Seasons, publishers say it doesn't make sense to fool with writers who can only do $20,000 books when by paying millions to best-seller producers they can make millions more.

Down in Wall Street's fabled canyons young men in wide suspenders toss around hundreds of millions of other people's money, money, money and debate, between buys and sells, whether to upgrade the second car to a Porsche or a Ferrari.

Russell comments: Of course, there are many understandable reasons for the current "lust-for-money" mania. (1) Fifty years of dollar depreciation and inflation has people worrying about their loss of purchasing power. (2) The US government, the world's biggest borrower, has encouraged its citizens to borrow (US consumer debt is now over $1 trillion). (3) The potential bankruptcy of Social Security and Medicare has forced people into "building their own nest-eggs to provide for retirement." (4) Government has condoned gambling (most states have lotteries, popularity of Las Vegas and Atlantic City, Indian reservation gambling, etc.).

Call me a moralist. Call me a kill-joy. Call me what you will, but I think there's something sick (or maybe sad) about a whole society concentrating on money, money, and more money. And I wonder where it will all end. Somehow, I don't think it will end well.

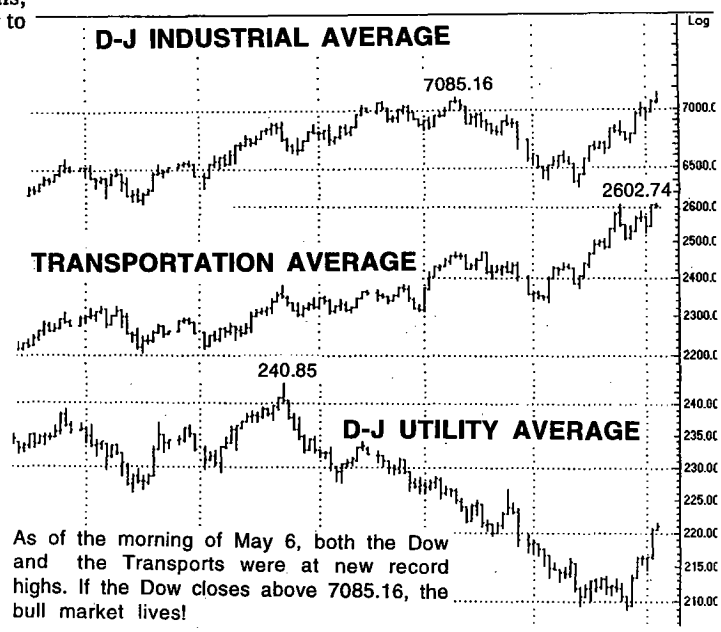
Apr. 25 DJIA 6738.87; PTI 4811; A-D Ratio +2.01
May 2 DJIA 7071.20; PTI 4843; A-D Ratio +3.39
Dow Yield: 1.73%; Dow Price/Earnings: 18.5
Dow 144-day MA: 6558; Dow 34-day MA: 6799
Dow Times Book Value: 5.28; PTI 89-day MA: 4792
Percentage of Undervalued Blue-chips: 7%
Gold 144-day MA: 363

Big Stock, Little Stock: The outstanding feature of this market has been the powerful performance of the high-capitalization stocks as against the lagging action of the majority of stocks. There's no great mystery here. The large-cap stocks have *global capabilities,* and we're in a world that's gone global.

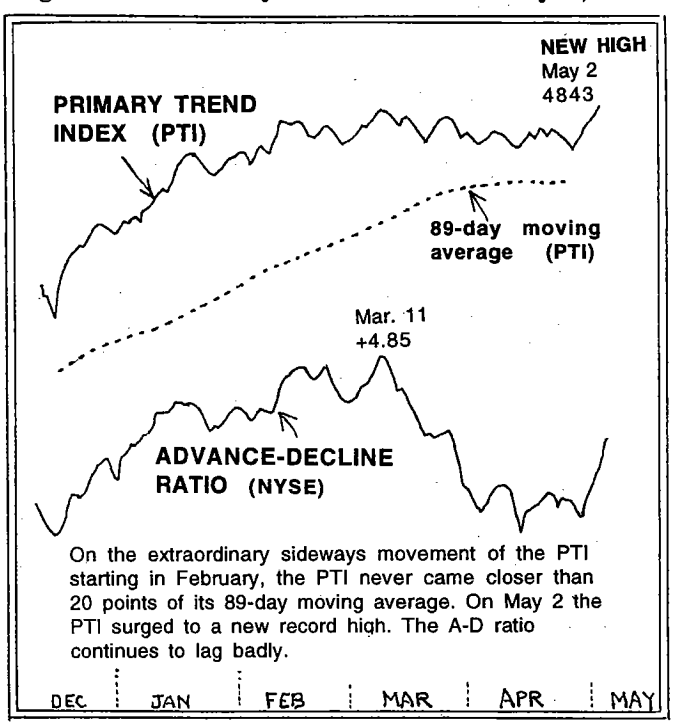
The medium-size to smaller stocks, in general, lack global capabilities, and as such they are at a disadvantage. Thus, today, size (and I mean large size) is a great advantage in doing business.

Compare McDonald's, a corporation that now receives the majority of its profits from overseas, to a small domestic chain of fast-food restaurants that is battling vicious US competition. Or consider Philip Morris, a company which is in trouble here in the US, while at the same time its sales in Asia are booming. The advantage of global capabilities is obvious. The fact is that if you're not selling your products to the world, you're competing with other companies that do. It's a major factor in the division between small-cap and large-cap companies.

This from the April 24 *USA Today: "The Internet and computer networks enable companies to work globally in ways they never could before. IBM is showing that with Java Around the Clock . . . Java, the new computer programming language, promises to end any problem with*



As of the morning of May 6, both the Dow and the Transports were at new record highs. If the Dow closes above 7085.16, the bull market lives!



different kinds of computers from manufacturers in different parts of the world being unable to link together. Java will allow machines to talk to each other in a kind of global Esperanto . . . For the first time, a generation of managers that has grown up thinking globally is taking charge . . . Globalization has been a long evolutionary process with a relatively small number of senior managers understanding what needed to be done. That's changing as more managers have globalization in their bones."

The Division: The 30 companies that comprise the Dow Industrials produce about 15% of the US Gross Domestic Product. That's a lot, but it also means that 85% of GDP is generated by non-Dow companies.

And that's the reason why market breadth is so important. What the great majority of stocks is doing is critical, and if they're declining in a persistent trend-basis, they'll bring the Dow-type stocks down with them.

For analysis purposes, I depend a great deal on the trend of my **Primary Trend Index (PTI)** for measuring the technical **strength or weakness** of the market. I also depend a great deal on the **advance-decline ratio**, since this indicator reveals the **direction (trend) of the majority of stocks** on the NYSE.

You can't have a bear trend with both my PTI and the A-D ratio in advancing trends. And you can't have a bull market with both my PTI and the A-D ratio in declining trends.

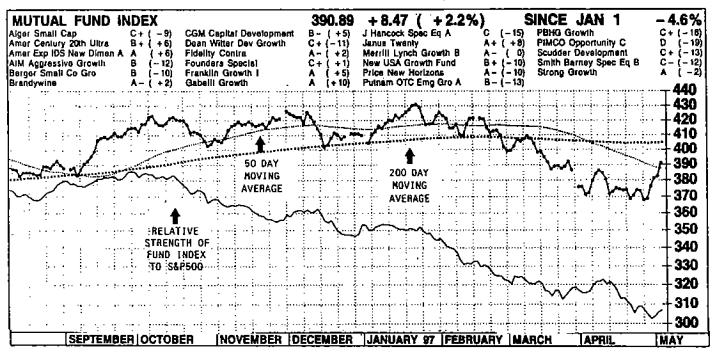
To put it another way, you can't have a bear market with the technical structure of the market improving (PTI) and the majority of stocks rising (A-D ratio). By the same token, you can't have a bull market with the technical structure of the market deteriorating (PTI) and the majority of stocks declining (A-D ratio).

All right, in the light of the above, what do we have now? On April 25 the PTI sank to its lowest level since February 3, but even on the decline the PTI held **well above its 89-day moving average.** At the same time, the A-D ratio broke down badly, although April 25 found this indicator in a severely oversold state.

On Friday May 2, following a long sideways move, the PTI finally closed at a new high -- **4843.** The advance-decline ratio rallied strongly, but as this is written the A-D is still well below its March 11 high. In instances such as this one, I generally consider that the power of the PTI will take everything with it -- including the A-D.

In every bull and bear market there's an area (usually not followed by the "experts") which proves to be a **KEY to the market.** It's a critical indicator to watch. In this market, at least in this early phase, I feel that a key indicator is the **price of the average mutual fund.** Mutual funds are where over a trillion dollars of public money is invested. And that's why I've zeroed in on the **Mutual Fund Index,** an index published exclusively by *Investor's Business Daily.* This is an index that the vast amount of the public and mutual fund holders never see. But I believe that this index, maybe more than any other indicator, is telling the story.

I include here *Investor's Business Daily's* **Mutual Fund Index,** and you can see that the average of these 23 growth equity funds is down nearly 5%. Furthermore, many of the individual funds are down a shocking 15% to 19%. If this continues, it is certain that the public will cut back on money that it sends to the funds (in fact, this is already happening).



Conclusion: Market action over recent weeks has been news-oriented, extremely erratic and very volatile. The market has reacted violently to every snippet of news that comes out of Washington or anyplace else. The initial rally off the March 11 low was narrow, with the Dow surging while breadth lagged. But last week, with bonds rallying strongly, the Dow gained upside momentum. On April 30 the Dow closed over 7,000 for the first time since March 13. And by mid-week it was clear that a test of the March 11 high of 7085.16 was in the offing (see "Late Notes" for final comments).

What would it mean if the Dow rallies to a new Dow high? **According to Dow Theory, a new Dow high would re-confirm that we're still in a bull market.** But one problem -- a new Dow high would leave the A-D ratio far behind.

In that case, we'd have another technical problem, namely, an important non-confirmation between price (the Dow) and breadth (the A-D ratio). But first things first -- let's see if we get a new Dow high.

UTILITIES: For years I've been telling people that Utilities are not a "safe harbor" in a bear market. For instance, on November 24, 1972 the D-J Utility Average closed at 124.14. A vicious bear market took over. By September 16, 1974 the Utility Average closed at 57.10. This represented a bear market loss of 54% in this supposedly "safest" of the Averages.

To bring matters to the present, on January 23, 1997 the Utility Average closed at 240.43. Last week (April 25) the Utility Average sank to a new low for the year at 209.40. This represented a three-month loss of 12.9%. Admittedly, deregulation in the utility industry is a problem, and rising competition has impacted on the group. But I don't like to use excuses for market action.

I've often stated that the Utility Average tends to be a leading barometer for the stock market, although the lead-time is often as long as six months to a year.

Russell thoughts: I've always suspected that when the next primary bear market starts, it will start as a drawn-out, **erosion** affair, at least in its early phase. By that I mean that stock prices will erode and mutual fund prices will sink. But the action will be **gradual and very subtle,** and it will lull stock and fund owners into **hanging on to their stocks even as losses mount.** The dramatic and even more costly phase of the bear market will come later, maybe much later.

I continue to feel that the market is in the process of forming a major top. But remember, this is a primary bull market that began in 1974, one that has had enough **upside momentum** to last an incredible 23 years. A 23-year bull market isn't going to build a top in two or three months. It will probably take the biggest and most extended top formation in history to end this greatest of all bull markets.

The question I ask myself, "Could this frustrating back-and-forth topping process extend for a year or even longer?" And my answer is, "Yes, it could."

INVESTMENT POSITION: Let's be honest, as far as the classic Dow Theory is concerned, we're still in a bull market (no Dow Theory bear market signal has materialized). Of course, the Dow Theory is based strictly on the action of the 30 D-J Industrial stocks plus the 20 D-J Transportation stocks. But this is a strange and exotic market, and these 50 stocks don't tell the whole story.

For this reason, I guess I should call this the BULL/bear market, and the reason is obvious. If you own mostly Dow-type big cap stocks, then, as far as you're concerned, the bull has never left. But if you own a typical portfolio of assorted stocks or the wrong mutual funds, you're down for the year, probably 5% to 20%, and to you it feels like a bear market.

For this reason, I've taken a page from the gene-altering crowd, and developed a two-headed monster that I call a "Blear," it's a freaky looking animal, and I doubt whether any zoo would accept it. But I put it in the box because, well, it seems as though it belongs.

Why? Well, for one reason, as of the first week in April, 22% of the NYSE stocks were down 30% or more from their '96 highs. And at the same time 42% of all Amex stocks and a shocking 60% of all Nasdaq stocks were down 30% or more from their '96 highs.

Market action continues to be extremely news-oriented, violent and erratic, and my feeling is that this rally presents an excellent opportunity to get LIQUID. Two-year government notes are my investment of choice.

SATELLITES: The following article was written by my old classmate, Don Morris. Don is an Annapolis graduate and spent 17 years with the CIA. Believe me, Don knows what's going on in the world. Don writes the *Donald R. Morris Newsletter,* distributed by the Trident Syndicate, PO Box 19909, Houston, TX 77224 (the price is a bargain $50 a year, published weekly). This article, I felt, was **so important** that I wanted to include it in its entirety (thanks Donald). It's the story of a coming revolution, the implications of which are almost impossible to imagine. Question: when all this comes to pass (and it's happening fast), what will happen to the telephone industry, the post office, newspapers, etc.? Can you imagine the plusses and minuses and dislocations that lie ahead?

The Satellites Are Coming

The high-tech revolution (essentially computers married to telephones) has hit more and more sectors of human endeavor, and more and more citizens. Only the most insignificant commercial enterprises can operate without a computer; hardly anything larger than a lemonade stand without a telephone. All sectors of government, economies, science, education, commerce -- personal communications; all depend on hyperspace and the Internet.

Yet a full half of humanity -- 2 billion people -- is locked out for a simple reason; it doesn't have access to telephones. Some may have computers, but they can't talk to others; scores of Third World nations just don't have the assets to lay telephone cables, (let alone fiber optics) to give their people access to telephones.

That is about to change, with a new revolution the bulk of which will be in place in the next five years. The new factor is the satellite, which obviates the need for the bulk of the world's already-overloaded landlines. Satellites can cost hundreds of millions of dollars; launch vehicles more, and the overwhelming majority of those placed in orbit in the last decade were government launches -- 40% of the 1,350 lofted were Soviet spy satellites. In 1995, 20 purely commercial satellites were launched; 76 will be orbited this year -- another 121 next year, and by 2002 a startling 1,042 more are planned.

They are part of no less than seven planned commercial global systems, differing in scope and applications, which will carry the revolution far beyond the myriad uses it has enabled today; the effects in the next quarter century will be profound, and can hardly be imagined. But they are all egalitarian, as available to the inhabitants of a grass-hut African village as to the Pentagon.

Satellites fall into three categories, each with different advantages and applications. The first is GEO -- Geostationary Earth Orbit; satellites in this band, 22,300 miles up, remain in a fixed position over a spot on the earth. Their unique advantage is that only two of them are needed to cover the entire globe; they are fine for basic telephone service in remote areas, for TV, fax and the Internet. Since signals, however, take a quarter-second to make the round trip, they are less useful for ordinary, two-way telephone conversations. Since all inhabit an orbit in the same plane at the same altitude above the equator, GEO can get crowded; there are already 150 satellites there. It also takes a huge launch rocket to get a satellite to GEO.

The next level is MEO -- Medium-Earth Orbit, about 6,000 miles up, and inclined to the equator. MEO is a trade-off with LEO -- Low-Earth Orbit; fewer MEO satellites are needed to cover the globe, but telephones need far more power to reach them. LEO satellites orbit between 400 and 1,000 miles up; many more are needed, but they're smaller and cheaper to launch, and hand-held phones need less power (smaller batteries) to reach them. The LEO technology is still untested; there will be traffic problems -- not of satellites bumping into each other, but of electronic traffic passing between entire constellations of LEO satellites.

Satellite communications reach Earth through assorted gateways, to be spread by landlines or microwave transmission. Third World countries which can't afford to lay telephone lines (and whose inhabitants can hardly afford mobile phones) could place solar-powered telephone booths in isolated villages; a

community telephone there would have access to as many others (in effect, to *every* telephone in the world) as one in the White House. Calls, moreover, would not distinguish between local and long distance -- all calls would cost about the same.

By 2002, Hughes Electronic's eight GEO Spaceway satellites ($3 billion) will provide telephone, fax and multimedia services. A consortium will put up 10 MEO ICO Global Communications satellites ($3.7 billion) for mobile and cellular phones; another group will put up 12 MEO Odyssey satellites for assorted services -- while LEO will be invaded by 48 Global Star satellites ($2.5 billion -- including those solar-powered telephone booths at $750 each), by 66 Iridium satellites ($5 billion), 28 Orbcomm satellites ($330 million) and 840 Teledesic satellites ($9 billion). Some of these are in assembly-line production, as low as $20 million each; the bottleneck is not satellites but launch rockets.

Current Internet complexities will pale when these systems, with their welter of links, are in place (and transmission speeds will be up to 1,000 times faster than current modems). The impact on current systems will be staggering, starting with garden-variety telephones, and followed by TV. The plethora of instant communications and video-conferencing will slice into postal systems -- and business travel. Most aircraft (including single-engine four-seaters) are now equipped with GPS (Global Positioning Satellite) receivers (many hand-held), giving position to within a few feet. Marry this (as Magellan has done) to an Internet link; hikers, boaters, hunters and rock-climbers need never be lost again, and in the event of mishap can immediately post their problem and exact location on the Internet. Trucking lines, with drivers spending endless hours calling in to report their locations, can now fix every vehicle instantly.

What lies in the immediate future is a world in which everyone, anywhere, can be linked to everyone else. Control (and billing) problems will take time to sort out, but the changes will be profound, and will reach every corner of this battered globe.

The tyranny of distance is about to be annihilated.

NOTES & QUOTES: Fast growth, low inflation, falling budget deficits, all underpinned by expanding international trade, downsizing in labor and sound monetary policies. That's the way the IMF describes the world's economies in the late-'90s. But the big story coming up is the Euro, the single European currency. And Europe is heating up for the decision. Britain voted last week for a new Prime Minister, France has moved up its election to next month, and Germany will vote next year. It's a wait and see situation. If the Euro becomes reality, the mighty D-mark and the lesser French franc will be history. Talk about a potential storm in the currency markets!!

* *

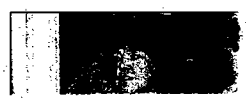
The Bill Clinton fan club is growing progressively smaller. So is the list of FOBs ("Friends of Bill"). Said James McDougal after cutting a deal for a more lenient prison sentence, "I think the Clintons are really sort of like tornadoes moving through people's lives. I'm just one of the people left in the wake of their passing by, but I have no whining or complaining to do, because I have lots of company." Said disgraced Clinton advisor Dick Morris, "There is a certain truth to what McDougal is saying; just look at the carcasses."

The Growing List: Ex-Friends of Bill

By STEPHEN LABATON

WASHINGTON

AFTER cutting a deal that landed him a lenient prison sentence in



In the meantime the scandal of selling the White House is proving more damaging to Clinton than Whitewater. The reason is that it's easy to understand why there's something wrong with turning the Lincoln Bedroom in the White House into a motel for big Demo Party contributors. However, one thing is clear -- it's against the law to solicit funds from a government office. There is little doubt that Clinton, Hillary, and Gore did that. But as they say, the law is what a judge or jury says it is. So the parade of Clinton scandals goes on -- and on -- and on. (Note: the accompanying news clip is from the April 20 *NY Times;* the strongly Democratic *Times*, it appears, is finally fed up with the Clintons. Of course, I beat the *Times*, I was fed up with the Clintons the day they entered the White House.) **Russell opinion:** For the first time, I believe there's at least a 50/50 chance that the Clintons will be indicted -- the charge (surprise) will be "obstruction of justice" (as per Nixon) and possibly perjury.

* *

When did BIG GOVERNMENT begin? It began in 1913, the year the Federal Reserve was inaugurated, and the year that Congress ratified the 16th Amendment to the Constitution. This amendment granted Congress the power to "pay and collect taxes on incomes." Woodrow Wilson was president at the time, and Wilson signed laws cutting US tariffs in half and paying for the lost revenues by imposing progressive taxes on the incomes and estates of "rich" Americans. This then was the moment in time when the limited government of the Founding Fathers died. At the same time, Big Government was born, spurred on by the social welfare and wealth-distribution policies of the liberal Democrats. Taxes from zero income taxes to half your income -- 1913 to 1997.

* *

Jim Grant of *Grant's Interest Rate Observer* (30 Wall St., NYC 10005) notes a rather unsettling phenomenon. Many corporations, while buying back their own stock, have been issuing options (to corporate executives) in wholesale quantities. So while buying back its own stock reduces the "float" or number of shares "out there" which can be bought or sold, the issuance of options does exactly the opposite, it increases the potential supply of stock.

Then there's an even more questionable practice, that of reducing the option price at which a corporate executive can buy shares in his company. For instance, Grand Casinos' stock dropped from a high of 35 last May to a recent low of 9. But CEO Lyle Berman (who owns one million options) wasn't flustered. In February the company dropped the option price at which Berman could buy the stock from 32 to 11. Thus, any advance above 11 for Grand Casinos puts money back in Mr. Berman's pocket . . . Apple Computer has repriced the options for its top executive eight times in the past 12 years as the price of its stock dropped.

Stock options are becoming the name of the game in luring top executives to corporations. For instance, Michael Eisner of Disney has options that are now worth near $400 million.

* *

It's really comical. The French are deadly afraid that they will lose their beloved heritage. Thus, many English words are banned on French radio and TV. But France has a problem: 90% of what's on the Internet is in English, and France is a modern company and must utilize the Internet. Actually, software companies in France and abroad are developing programs which can automatically translate E-mail and Web pages.

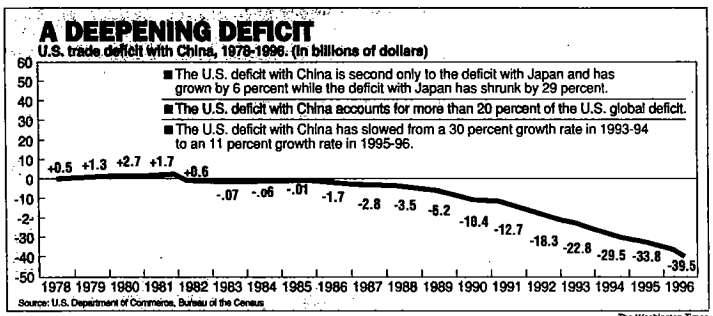
* *

People don't realize it, but the dominant presence in Hong Kong today is not Britain, it's the US. And as Britons are leaving Hong Kong, Americans are arriving. There are now over 36,000 Americans living in Hong Kong along with the offices of 1,000 US companies. More than $14 billion in investments and roughly $50 billion in US money is at risk in Hong Kong. As the *Christian Science Monitor* (one of my favorite papers) puts it, "Though the US was not party to the 1984 agreement returning Hong Kong to China by July 1, it will likely take on the role of guarantor of Hong Kong's freedoms and autonomy. This is inevitable given the stakes and the fact that Washington has more influence in Beijing than does London." **Russell comment:** Money talks. Hong Kong will be one of the US main policy concerns in Asia and the US' relationship with China will be crucial.

* *

China presents a growing problem for the US. The main problem is that China is selling merchandise to the US hand over fist, as this

chart shows (courtesy of the *Washington Times*). At the same time, China is building a progressively larger military force. Although China has a huge 2.2 million man army, most of the new money and modernization is going into China's navy and air force. The US' high-technology crushing of Iraq made a huge impression on China, which still possesses its "sea of people" warfare strategy. China is extremely secretive about its military posture, but it is clear that the world's most populated nation is moving toward building a modern military force. China in the past has not been expansionist. But today it's clear that China wants to be THE power in Asia as well as the world's next super-power. Furthermore, China has the population, the will, and the know-how to get there.


A DEEPENING DEFICIT
U.S. trade deficit with China, 1978-1996. (In billions of dollars)
■ The U.S. deficit with China is second only to the deficit with Japan and has grown by 6 percent while the deficit with Japan has shrunk by 29 percent.
■ The U.S. deficit with China accounts for more than 20 percent of the U.S. global deficit.
■ The U.S. deficit with China has slowed from a 30 percent growth rate in 1993-94 to an 11 percent growth rate in 1995-96.
60 50 40 30 20 10 0 -10 -20 -30 -40 -50
+0.5 +1.3 +2.7 +1.7 +0.6 -.07 -.06 -.01 -1.7 -2.8 -3.5 -5.2 -10.4 -12.7 -18.3 -22.8 -29.5 -33.8 -39.5
1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996
Source: U.S. Department of Commerce, Bureau of the Census
The Washington Times

* *

The government's much-touted "adjustment down" for the CPI has quietly been dropped (too much pressure from Social Security and other groups). Anybody who lives in the real world knows it was baloney. The things we really spend money on are not going down (either are taxes). Last week many NYC movie chains announced that ticket prices (just in time for Hollywood's summer blockbusters) are being boosted to $8.75 and $9.00. Nine bucks for a flick, I'll rent the tapes or wait for them to appear on TV (movies look just as good four months after release). I guess I'm prejudiced -- I remember seeing double features for 15 cents. And if you wanted to see the latest movie plus Frank Sinatra singing with Tommy Dorsey's band (live) at the Paramount before 12PM, the price was seventy-five cents.

* *

My old buddy and schoolmate, Jay Pack, who's been on Wall Street since the late-'40s, always gives me the latest word from "The Center of the Known World," also known as New York. Says Jay, "Real estate prices in the City are the highest and most frantic I've ever seen. You can not believe the prices. My best barometer of the economic picture has always been the ease or difficulty in getting a cab in the city." Jay's latest reading -- "grabbing a cab has eased a bit but not much." There, you heard it here first.

* *

There's a push on to have heart defibrillators in key public places. The new mini-defibrillators, it is believed, could save around 10% of the heart attack patients that are brought into hospitals too late ("dead on arrival"). Where should the new defibs be placed? Here are the top five sites where cardiac arrests occur: (1) airports, (2) county jails, (3) shopping malls, (4) sports stadiums, and (5) golf courses.

* *

Health: The Mormons, who don't drink or smoke, are among the healthiest groups in the nation. In fact Mormons' deaths from cancer and cardiovascular diseases are roughly half that of the general US population, this from a study by UCLA epidemiologist, Hames Enstron, who tracked the mortality and health practices for nearly 10,000 California high priests and their wives for 14 years. Furthermore, high priests who follow the additional health practices of regular physical activity and proper sleep have an overall death rate that is only 38% of all white males. Finally, the study notes that Mormons, who emphasize a strong family life, have a network of support that contributes to good health. Russell conclusion: get into a good marriage, exercise, drink sparingly if at all, don't smoke and get along with your mother-in-law.

* *

Despite the coming Chinese takeover, **Hong Kong** continues to be the land of financial opportunity. Hong Kong is crawling with ambitious young people and recent US college graduates all looking for the plentiful jobs. Writes Amy Wu in the *NY Times*, "The help-wanted ads here are as thick as London fog, and the jobs often don't require a college degree . . . There's no question that young people are ready to take advantage of every opportunity. A colleague of mine in her late 20s has changed companies six times in three years. Each time she moves up the ladder; she follows the money and has no guilt . . . As for my cousins, they too, are hungry to sample Asia's rich table. Dozens of their friends are already making piles of cash, some working two jobs and investing what they don't spend on shiny cars and expensive clothes . . . Recently a friend called from New York and seemed stunned when I told her I didn't miss the States and would be very happy to spend the rest of my life working here." **Russell comment:** One reason people like working in Hong Kong is that they have a top income tax rate of 15% and no capital gains tax. In other words, you're working for yourself, not for the government.

* *

New York is now the undisputed center of the **international art market.** Why? One reason is European greed. If a French collector buys a painting in Paris for one million dollars, on top of that he pays a value added tax of 5%. On top of that, in half the European countries, the buyer must give the painter's heirs 2% to 4% of the price every time the painting is sold, if the artist died within 70 years. So on a million dollar painting, the buyer pays an extra $50,000 - $90,000. Result: NYC has become the international art center.

* *

America OnLine asked subscribers to describe how they knew when they were **getting old.** A few examples: (1) I knew I was getting old when a waitress gave me a senior discount when I didn't even ask. (2) When everything I have either started leaking or dried up. (3) When I kissed my wife and she yawned. (4) When I started getting some urges and couldn't remember what they were for. (5) When I realized that my children belonged to the A.A.R.P. (6) The Wal-Mart greeter offered me the motorized cart. (7) I was reading the comics, and I said to myself, "That Mary Worth is a fine looking woman."

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Hollywood: The studios are coming out this summer with 15 new movies all costing over $100 million. This is a potential disaster, since the public can only "digest" so many blockbusters within a given week. The $180 to $200 million "Titanic" movie is being re-scheduled to a later date in an attempt to avoid the rush.

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I guess you can call 84-year-old **John Templeton** along with Warren Buffett the deans of investing. In an interview in the May 27 *NY Times* Templeton was asked about the US market. He stated, "The chances are more than even that two or three years from now, it won't be any higher than now." Asked what was the most important investment lesson he has learned, Templeton replied, "Probably what we call the point of maximum pessimism. I started out one of the very few people in America who was advising Americans how to invest worldwide. I started out fairly young saying that I was going to buy based on value rather than trend or price, that I was searching for good values instead of seeing what was going to move up or down. Common sense will tell you that the only time you can get something for a small fraction of what it's worth is when other people are despondently selling. So it's been a theory of mine, the theory of maximum pessimism. If you want to succeed in selecting investments, look for the points of maximum pessimism." Templeton was asked what particular sectors in the US look attractive now. Answer: "There aren't any common stocks that I put in that category at present in this country."

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Mercedes is hot (sales to the US up 23% so far this year). The company will be coming out with its new A-Class cars, by far its smallest vehicle, roughly 10 feet long and going for a price of around $17,000+. Mercedes says that although the A-Class cars will not be out for six months they have already received 300,000 requests for information on the car. Output for the A-Class this year will be 30,000, rising to 150 to 180 thousand next year.

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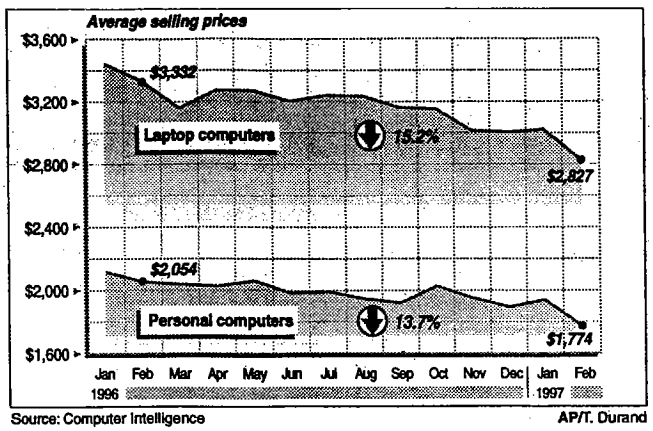
The world of wireless communications, digital phones, semiconductors and even TV has become so confused and

competitive that it's hard to keep up with it. Microsoft is sweeping the field, Netscape is reeling, Sun is going to whack Microsoft, Java is the future, Motorola is suing Qualcomm, Apple will be taken over, etc. But one thing is clear -- competition among PCs and laptops is rapid and vicious. This chart show what's happened to prices on the PC/laptop front. Buy a PC today, and six months later there's a more powerful one out at a lower price.



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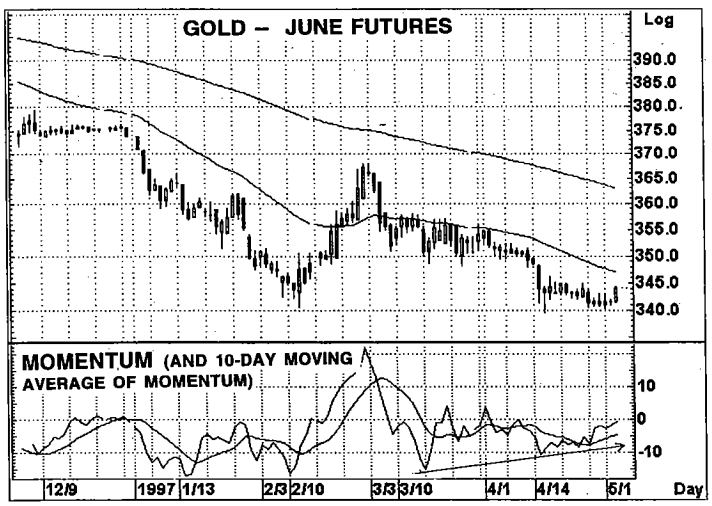
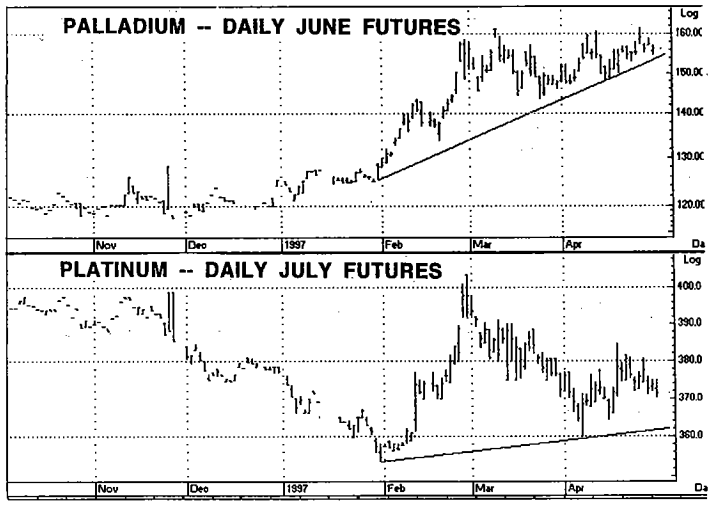
One out of every eight people in the US now live in California. If California was a separate nation, it would have the seventh largest Gross Domestic Product in the world. Everybody, it seems, is coming to California. Chelsea Clinton is coming to California (she's going to Stanford). San Diego is filling up with people. Traffic in La Jolla is getting bad. Choke.

GOLD, PRECIOUS METALS: Here's an example of how blue and pessimistic traders in gold are. One friend (he writes a commodities report) states that the gold action is so rotten that any day when gold isn't down by the close -- is comparable to a "limit up" day in any other commodity. That's how hungry gold-philes are for even a single day's higher closing in the yellow metal. And I ask myself, "Isn't this the kind of black discouragement that one tends to find at the bottom of a bear market?" Well, yes, I answer -- except that black-pessimism can even get blacker.

I'm reminded of the broker who calls Sam, his client: "Sam, that gold stock, Goldhole, which we bought last month at 47, well there's good news and bad news." Sam gulps, "Give me the bad news first." The broker says, "Your 500 shares of Goldhole have dropped from 47 to 11." Sam groans, "Good Lord, well, give me the good news." The broker replies, "Goldhole went down on very low volume."

Volume has receded as the gold shares have declined, but that hasn't helped so far. Investors make or lose money on price, not





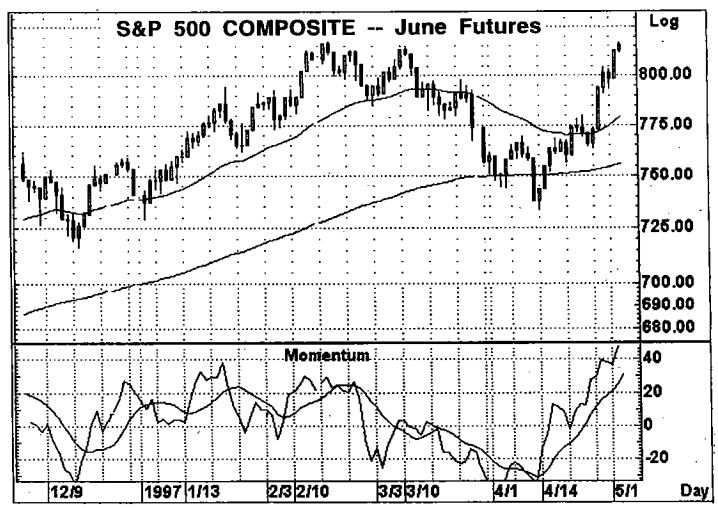
volume. But wait! On Monday gold actually opened **up over two bucks.** Is this it? Is this the turn?

So c'mon, lets be constructive. To me the most hopeful part of the gold picture is shown on this chart of daily gold and its momentum or 10-day rate-of-change. As you can see, the trend of momentum turned up in mid-March. Momentum usually turns up **before price.** Target for June gold -- to rally above its 34-day moving average, which now stands at 347.

I include daily charts of palladium and platinum. Palladium often leads the precious metals group. It's a plus that both of these precious metals are in rising trends. And that's about it for the precious metals universe.

LATE NOTES: With Friday's (May 2) Dow close only 14 points below the all-time high of **7085.16,** a new Dow high (close) appears almost guaranteed. A new Dow high would end the mystery of the primary trend. A Dow close above 7085.16 would confirm the successive new Transport highs and tell us that the primary bull trend is still in force.

I'm including below a daily chart of the broad S&P 500. Like the Dow, the S&P is poised to better its previous record high of 816.29 (Feb. 18). Momentum is the highest of the year, and this may call for a pause, but it's clear that the direction is UP -- and where it stops nobody knows.



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